

What you need to know about disability insurance



Barry Cunningham, MA, FLMI
B.C. Consulting & Insurance Services
(602) 722-5021
B.C.insuranceservices@gmail.com
www.its4yourlife.com

Insuring your Most Valuable Asset...You



Your most important asset is not your home, your car, your jewelry or other possessions. It's your ability to earn a living. Think about it: All of your plans for the future—from buying a home to putting your kids through college to building a retirement nest egg—are based on the assumption you will continue to earn a paycheck until you retire. But what would happen if those paychecks stopped? That's where disability insurance comes in. It provides an income to you and your family if you are unable to work because of illness or injury.

Understanding the Risk of Disability

Who needs disability insurance? Just about anyone who has a job. The possibility of a disabling illness or injury may seem remote, but statistics paint a different picture. Of today's 20 year-olds, one in four will become disabled at some point in their career, according to the Social Security Administration. While it's true that people in professions like farming, law enforcement and construction face greater risks, the odds of suffering a long-term disability are high for all workers because illness—not accidents—account for

90 percent of disabilities that keep people out of work. (See chart on the next page.)

Your paycheck could stop arriving just as an illness or injury brings significant expenses for medical bills, physical rehabilitation or the cost of modifying your home to accommodate medical equipment. Missed mortgage payments could put ownership of your home in jeopardy. Falling behind on credit card and other bills could mean burdensome late fees and escalating finance charges. In fact, disabilities have historically caused nearly half of all mortgage foreclosures and a significant number of personal bankruptcies.

**1 IN 4 OF TODAY'S 20-YEAR-OLDS WILL BECOME
DISABLED AT SOME POINT DURING THEIR CAREER**



Source: Social Security Administration, Basic Facts, Feb. 7, 2013

The financial consequences can be even more far reaching. A lengthy disability could literally cost you millions. A 45-year-old worker who makes \$50,000 a year and suffers a permanent disability could lose \$1 million in future earnings.*

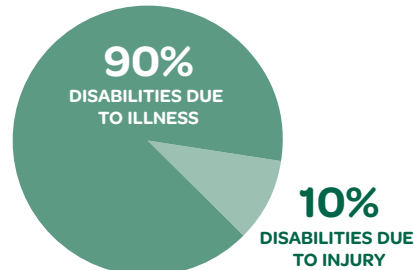
Sources of Disability Income Protection

Workers' Compensation If you're employed and suffer a disabling illness or injury, you might be able to count on Workers Compensation insurance to replace some of your salary. All states require employers to provide Workers' Compensation coverage. It typically pays about two-thirds of your pre-disability income. But it only pays in cases where your illness or injury is related to your work. The vast majority of long-term disabilities, however, are not job-related (see chart below).

State Disability Insurance Programs A handful of states provide short-term disability coverage—typically for up to six months—that workers pay for through payroll deduction. These states are California, Hawaii, New Jersey, New York and Rhode Island, as well as Puerto Rico. For those who live in these states, this can be an important source of short-term income replacement.

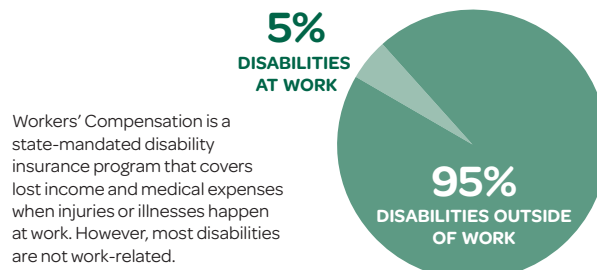
*Source: U.S. Census Bureau Survey

ILLNESS CAUSES MOST DISABILITIES



Source: Council for Disability Awareness, Long-Term Disability Claims Review, 2014

MOST LONG-TERM DISABILITIES ARE NOT COVERED BY WORKERS' COMPENSATION



Source: Council for Disability Awareness, Long-Term Disability Claims Review, 2014

A New Home Saved from Disaster



Cindy and Matt Wrenn were days away from closing on their dream home when disaster struck. Cindy, 28, suddenly fell ill and was rushed to the hospital. She was stricken with a brain aneurysm, and during surgery she suffered a stroke. With Cindy in critical condition, the house closing seemed out of the question. It was unclear if Cindy would survive, let alone return to her job. Matt's teaching salary wasn't enough, on its own, to qualify for the mortgage. Matt contacted his insurance professional, who had helped the couple purchase disability insurance policies.

The insurance professional pointed out to the lender that the short-term disability coverage provided by Cindy's employer would cover 60 percent of her salary over the first 90 days of the disability, and the long-term benefits of her individual policy would replace 70 percent of her salary after that if she was still unable to return to work. With that, the loan was approved.

Cindy's recovery was nothing short of miraculous. A month after the stroke, Cindy was released from the hospital, and a few weeks later she moved into her new home. Just three months later, Cindy was able to return to her job part-time. The income Cindy earned allowed her to move from a full to a partial disability claim.

Today, Cindy is no longer collecting disability benefits. She's in good health and owns her own title company. She still has disability insurance, so if disaster should ever strike again, she's covered. "When you're in your 20s, you don't think of such things as disability insurance," says Cindy. "I'm so thankful that I had it."

Watch the complete story at www.lifehappens.org/wrenn.

Disability Insurance Saves a Family—Twice



When Valerie King transitioned from her medical residency to practicing as a physician, her group disability insurance plan was set to terminate so she converted it to an individual disability policy. Although Valerie never thought she would need it, a condition called ulcerative colitis made the decision for her. The disease and a series of surgeries made it impossible for her to carry out her duties and practice the profession she loved. Her disability insurance allowed her to survive financially and care for her three young daughters as a single mother.

Life also had a second chapter for Valerie. She met and married Tim, also a divorced parent. They looked forward to raising their blended family together and sought the advice of an insurance professional. In addition to the life insurance, their agent made sure Tim understood the importance of disability insurance.

It was fortunate Tim took their agent's advice, as he came close to dying from an undiagnosed aneurism and valve issue with his heart. A risky operation saved his life but left him unable to return to work. Again, disability insurance made it possible for the family to go on financially.

"Most people think, 'It will never happen to me,'" says Valerie. "But the truth is it can—and does. Everything else goes away if you don't have disability insurance coverage and you can't work."

Watch the complete story at www.lifehappens.org/king.

Social Security The federal government administers a disability insurance program that covers most workers, but qualifying for benefits is far from a sure thing and the payment levels (determined by your salary and work history) are fairly modest. About 65% of applications for Social Security disability benefits are initially denied, and the average monthly payment for current beneficiaries, \$1,111, is barely above the poverty line.

Employer-Sponsored Coverage The main source of disability income protection in the United States is coverage provided or sponsored by employers. Many employers, especially larger ones, provide their employees with group insurance coverage. There are two forms: short-term disability (STD), which replaces a significant percentage of your income for about three months in most cases; and long-term disability (LTD), which typically pays 50% to 70% of your base salary (pre-tax) for longer periods.

Often, employees are given the option to add to the baseline coverage that the employer provides. Some companies don't provide disability coverage but help their employees by giving them the opportunity to purchase coverage on a voluntary basis. With this type of program, employees, rather than the employers, pay the full cost of the coverage. A benefit of purchasing disability coverage at the workplace is that it's generally easier to qualify for than coverage purchased on your own. Check with your employer's human resources department or benefits manager to see what coverage and purchase options your company's plan provides.

FEWER THAN 1 IN 3 U.S. WORKERS IN PRIVATE INDUSTRY HAVE LONG-TERM DISABILITY COVERAGE THROUGH WORK

Type of Program	All Employees	Professional, Technical, and Related Employees	Clerical and Sales Employees	Service Employees
Short-term Disability Coverage	39%	48%	36%	19%
Long-term Disability Coverage	32%	53%	31%	9%

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in the United States*, 2013

Individual Disability Insurance The most flexible and reliable source of coverage is an individual disability insurance policy you purchase on your own. A privately owned policy is portable, meaning you won't have to worry about losing coverage if you change jobs. Generally, most individual policies pay between 50% to 70% of your pre-disability gross salary. When paid with after-tax dollars, benefits are received income-tax free.



Majority of Americans are apprehensive over their ability to support themselves should they become sick or disabled and unable to work, yet only a third of have disability insurance.

72%
believe most
need disability
insurance

33%
own disability
insurance

Source: The 2016 Insurance Barometer Study, Life Happens and LIMRA

KEY TERMS

When considering your disability insurance needs, you should be familiar with the following:

Benefit level and period Disability policies usually pay from 50% to 70% of your pre-disability earnings at the time of purchase for a specified period of time. That period may run from one to five years, until age 65, or in some cases, for life.

Elimination period There usually is a waiting period, known as an elimination period, before benefits kick in. It's typically 30 days, 90 days or six months after a disability occurs. You can select the waiting period when you buy your policy. Opting for a longer waiting period reduces the premium cost.

Definition of disability Some policies pay if you're unable to perform the duties of your own occupation; others pay only if you can't work at any occupation for which you're reasonably qualified. In addition, some policies pay only for disabilities arising from an accident.

Extent of disability Some policies pay only if you are totally disabled. Others may cover partial disability for a limited time, but only when it follows a period of total disability for the same cause.

Residual benefits If you're unable to perform some aspects of your job, residual benefits allow partial disability payments based on the amount of your loss of income.

Guaranteed renewable One of two major types of disability policies. It means your policy can't be cancelled as long as the premiums are paid. Premiums can be raised for an entire class of policyowners but not for reasons related to your individual circumstances.

Non-cancelable The other major type of disability policy. These policies can never be cancelled as long as premiums are paid, and premiums are guaranteed not to increase.

Inflation protection You can typically add a cost-of-living adjustment rider to an individual disability insurance policy that increases benefits by a specified percentage after each year of disability. Though expensive, this option can be vital to maintaining your standard of living if you're out of work for an extended period of time.

How Much is Enough?

Will you be able to maintain your current standard of living if you become disabled? The easiest way to answer this question is to add up your monthly living expenses and compare them with the income you could expect from your existing disability coverage, plus any income you count on from other sources, such as personal savings. If your income from all sources won't be enough to support you and your family, consider buying additional disability insurance—either through work or on your own—to make up the difference.

Use our Disability Insurance Needs Worksheet as a starting point for your calculations. If you'd prefer to use an online calculator, visit www.lifehappens.org/DIcalc. Some things to keep in mind when going through the numbers:

- Employer-paid disability benefits are typically taxable. Estimate the after-tax amount of these benefits when assessing your level of income.
- Benefits from your employer's group plan or a personal disability policy may be reduced by the amount of Social Security or other government benefits you're receiving.
- You may be eligible for disability payments from other sources, such as Veterans Administration, civil service benefits or your union's group disability plan. In addition, some auto insurance policies cover disability resulting from an auto accident. Some lenders also offer insurance that takes care of your loan payments if you become disabled.

DISABILITY INSURANCE NEEDS WORKSHEET

This simple worksheet lets you assess the income needed to sustain your current standard of living should you become too sick or hurt to work. This is not a comprehensive assessment. For more information, talk to your human resources administrator or a qualified insurance professional.

Monthly Income Available

Income from current group disability coverage	\$ _____
Income from current individual disability coverage	\$ _____
Income from spouse and/or other family member	\$ _____
Monthly investment income	\$ _____

TOTAL MONTHLY INCOME AVAILABLE¹

\$ _____

Monthly Expenses

Mortgage (including property tax) or rent	\$ _____
Homeowner's or renter's insurance ²	\$ _____
Car payments and insurance	\$ _____
Utilities	\$ _____
Food and clothing	\$ _____
Child care expenses	\$ _____
Bank loans and credit card payments	\$ _____
Medical expenses	\$ _____
Health insurance premiums ³	\$ _____
Insurance premiums (life, disability, dental, etc.)	\$ _____
Savings, investment and retirement contributions	\$ _____
Home maintenance costs	\$ _____
Other (education, entertainment, etc.)	\$ _____

TOTAL MONTHLY EXPENSES⁴

\$ _____

(INCOME - EXPENSES)

Need for additional income replacement due to a disability

\$ _____

¹ Does not include Social Security disability payments, as benefit amount varies by individual case.

² Don't include if it's part of your mortgage payment.

³ If you become disabled, you can generally maintain your group health insurance coverage, but your employer may no longer contribute toward the premium. Ask your human resources department what the full cost of your health insurance premium would be if you become disabled.

⁴ Does not include one-time expense (e.g. modifying home or automobile to accommodate disability)

3 ways to get coverage

1 Through your employer. Your employer, particularly if you work for a large company, may provide short- and/or long-term group disability coverage at no cost to you. One of the best features of employer-provided coverage is that there is no underwriting, meaning you automatically qualify for coverage. You should be aware that if you start a new job and have a preexisting medical condition, there may be short-term limits on your coverage, typically a waiting period of 12 months. Another valuable benefit of employer-provided coverage is that you often have the option to increase your coverage from, say, half to two-thirds of your base salary. To qualify for additional coverage, you may have to answer a few basic questions about your health. It's important to keep in mind that if you have group coverage and you leave your job, you generally are not able to take the coverage with you.

If your employer does not provide group disability insurance coverage, it may make a disability benefit available to you on a voluntary, employee-paid basis. While you pay the full cost of the benefits under a voluntary arrangement, there are several advantages to buying disability insurance this way. Voluntary plans help workers get coverage more easily than if they were to purchase an individual policy on their own outside of the workplace.



Premiums are typically paid through an automatic payroll deduction and can be as much as 10% to 20% less because of efficiencies in enrollment and billing procedures. Additionally, you may be eligible for more coverage under a voluntary plan than is offered by a traditional group plan.

Your benefits manager or human resources administrator can help you sort through the options.

2 Through a professional organization. Many professional associations offer members the opportunity to purchase disability insurance through a group plan. Typically, little underwriting is involved and premiums are based primarily on your age and income. This type of coverage is generally less expensive than an individual policy purchased on your own through an insurance professional.

If your need for coverage is great and your budget is limited, this is definitely an option you'll want to explore. However, there are drawbacks. If you change professions, the coverage may not follow you. There's always the chance your professional organization could decide to drop its disability coverage. That can't happen with most types of privately purchased disability insurance, which are guaranteed renewable as long as you pay the premiums.

3 Buy it on your own. Another good alternative is an individual disability insurance policy you purchase on your own through an insurance professional. You never need to worry about losing coverage if you change jobs. An individual policy also gives you the opportunity to consider policies from a multitude of carriers. If you buy through work, you're usually limited to buying (or increasing) coverage from the one carrier with which your employer is contracted.

One downside to individual coverage is that it can get pricey depending on the policy's features and benefits. Your budget, the benefits you desire and your health status help determine whether you obtain coverage on your own, or through your employer or a professional association. What's most important is knowing that you'll have the wherewithal to make ends meet in the event you suffer an unexpected injury or illness, and are unable to work and earn an income.



1530 Wilson Boulevard, Suite 1060
Arlington, VA 22209
www.lifehappens.org